

Forecast and reality: How property trusts perform

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The focus of most investors in APN's AREIT Fund is on income. In the 12 months to 30 June 2017, that interest would have been satisfied by an attractive and predictable distribution yield. In comparison, however, total returns - unit price growth plus distribution yield - were more modest. If you're happy with the yield but unhappy with the total return, should you be concerned?

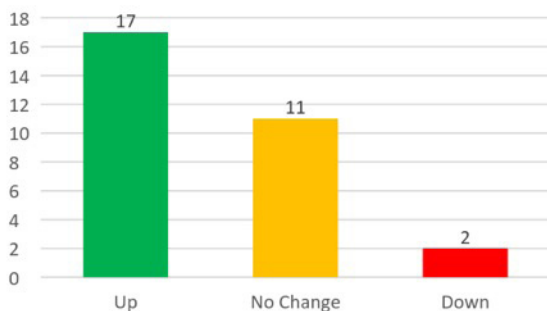
In the long term, yield is the primary driver of unit prices. That indicates the real question investors should be asking right now, which is whether the yield is sustainable and likely to grow. If so, unit prices will take care of themselves.

Making that assessment isn't easy. To help out, we examined the distributions paid by property trusts over the past year to see how performance matched the guidance offered by management during the 2016 results season last August. In other words, did reality match forecast and ambition?

As the table below shows, the answer was 'yes'. Of the 30 AREITs we assessed, 28 delivered a dividend per share (DPS) either equal to or greater than the guidance provided just over a year ago.

Of the two that didn't, one experienced a change in management that reset investor expectations and the other missed guidance by such a small margin it was immaterial. Of the 11 AREITs that exceeded FY17 DPS guidance, the average outperformance was 1.4%.

FY16 DPS Guidance to FY17 DPS Actual



Source: IRESS, Company Data, APN Funds Management

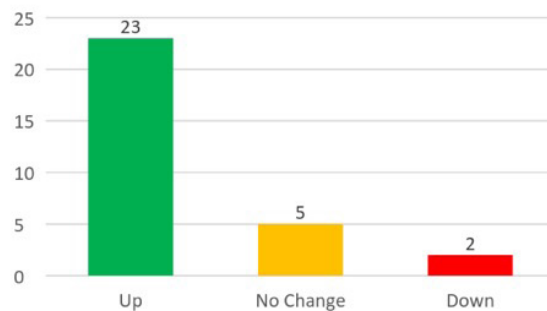
N.B.: Where a range for DPS guidance is provided by management we have adopted the lower end of the range for the purposes of this analysis. Analysis is based on the APN Coverage Universe for securities which paid a dividend through FY17 remain publicly listed and/or within the APN Coverage Universe at 6 October 2017. Where a trust has been listed for less than a full year the dividend payment has been annualised to ensure an accurate like-for-like growth comparison.

What can we take from this analysis? First, that despite a challenging trading environment across broader equity markets, AREIT management teams are either meeting or surpassing expectations. This is a sector delivering on its promise. Over the long term, this will be reflected in unit prices.

Second, being willing and able to forecast a precise DPS target and deliver on it a year later is a sign of a well-drilled management team. It also speaks to the stability and resilience of the sector. Both factors should give confidence to investors happy with the yield but less so with total returns to see things through.

As AREIT managers largely met or surpassed their targets last year, we're confident that these same managers will deliver on this year's guidance. So what does that look like? Here's a chart comparing the actual FY17 distributions achieved by these 30 stocks to the guidance provided for the 12 months to FY18:

FY17 DPS Actual to FY18 DPS Guidance



Source: IRESS, Company Data, APN Funds Management

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This analysis suggests that 23 of the 30 AREITs analysed anticipate positive DPS growth this financial year. On average, FY18 DPS guidance is 2.7% above the actual levels achieved in the prior year.

That's comforting. In a period of AREIT share price weakness, actual DPS performance tended to exceed guidance but is also anticipated to grow over this financial year. Property trust managers expect even higher distributions this year.

With APN Property's unwavering focus on providing property trust investors with distribution certainty and stability, we're comforted by this analysis. Income-focused investors, including those in the APN AREIT Fund, currently yielding 6.4%¹ should be, too. Short term total returns may be disappointing some investors but the long term driver of them is performing very well indeed. All that's required is patience while the market catches up with the facts.

1. As at 30 September 2017. Current running yield is calculated daily by dividing the annualised distribution rate by the latest entry unit price. Distributions may include a capital gains component. Distributions are not guaranteed and past performance is not an indicator of future returns.

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